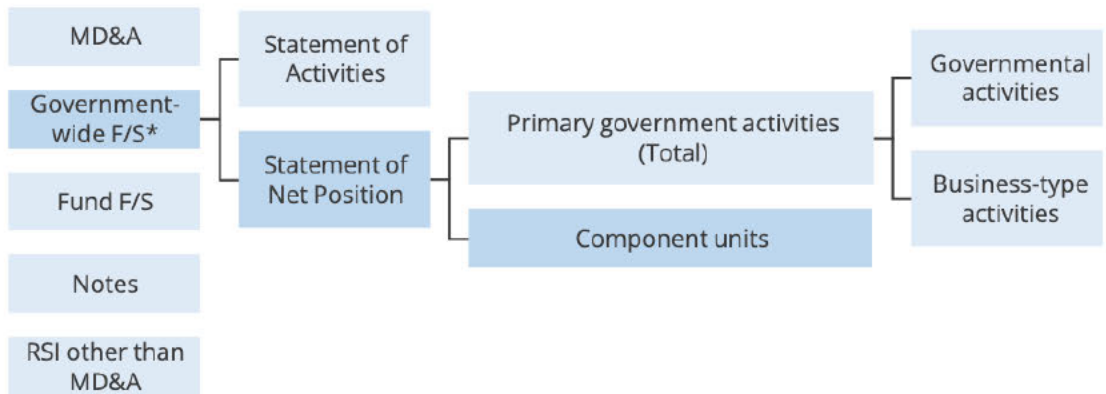


# 20.07 Component Units, Infrastructure, & Major Funds

## Overview



\*Accrual basis

## Component Units

### Defined

A component unit is an autonomous organization (eg, a school district) that operates with separate budgets and management, but is included in the financial statements of the primary government where:

- The primary government controls a **voting majority** of the autonomous organization's governing board. In the absence of a governing board, this criterion is considered to be met if the primary government performs the duties a governing board would normally perform.
- The autonomous organization is **fiscally dependent** on the primary government. In this context, dependence means the primary government:
  - Establishes and approves the organization's budget
  - Determines the organization's tax rates or amounts charged for services
  - Provides approval before the organization can issue debt
- The autonomous organization is a **financial benefit or burden** to the primary government.

### Accounting

The accounting for component units may be either:

- **Discretely presented** (ie, separately stated) – Separate accounting for the activities of the component unit in separate columns is the presumed method (ie, most component units are discretely presented). This is usually appropriate when:
  - Management consists of separately elected officials,

- Budgets are developed separately from the primary government, and
- The services provided are *not* primarily to the government itself.
- **Blended** – When the component unit serves other parts of the primary government, or is dependent on the overall government legislative body for funding or budgeting, it may be more appropriate to account for the activities of the component unit along with the remaining funds of the government.
  - Where it serves the other departments and is paid by those departments, an *internal service fund* may be appropriate.
  - Where funding is received from services to outsiders, an *enterprise fund* may be appropriate.
  - Blending is also required for a component unit that was incorporated as a not-for-profit corporation with the government as the only corporate member.
  - Generally shown in the *Governmental Activities column*.

An entity that raises and holds economic resources for the direct benefit of a government (eg, a library society that raises money, which will go to the government operating the library) is required to be reported as a component unit.

#### Component Units Presentation Summary

**Discrete presentation** in a separate column unless:

- It meets the criteria below to be blended.

**Blend** with other funds if:

- Unit was incorporated as a not-for-profit corporation with the government as the only corporate member.
- Governing body is the same as the primary government.
- Unit provides services almost entirely for benefit of primary government.
- Unit's debt is expected to be repaid by primary government.

## Infrastructure

Accounting for infrastructure assets (streets, sidewalks, highways, etc.) in the governmental activities column has several complications. The **preferred approach** is to account for these assets at historical cost and **recognize depreciation**.

Several governments find the recordkeeping burdensome, however, since the ongoing expenditures for repairs, maintenance, and improvements for such assets can make it difficult to gauge total costs. It also tends to result in lives for these assets which are, in a sense, indefinite in duration.

GASB 34, as amended by GASB 63, permits governments to omit depreciation on infrastructure assets if they can demonstrate that the regular costs incurred to maintain them give them an indefinite life. This is called the **modified approach**. This approach may be used if the government:

- Uses an asset management system to manage the infrastructure and
- Documents how the assets are being preserved at a minimum level established by the government.

If these conditions are met, infrastructure assets are recorded as capital expenditures and are *not* depreciated; however, additions and improvements are still capitalized. Two schedules are included in the required supplementary information:

- A schedule reflecting the condition of the government's infrastructure
- A schedule comparing needed and actual expenditures of maintaining the infrastructure

Intangible assets that are identifiable should be recognized in the statement of net position at historical cost.

## Major Funds

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On the fund F/S, we report by major fund category as opposed to by fund type. A major fund is:

- General fund
- Other funds representing *both*:
  - **10% or more** of total *category* assets, liabilities, revenues or expenditures/expenses of either Governmental or Enterprise category; **and**
  - **5% or more** of total *entity* (Gov & Enterprise) assets, liabilities, revenues or expenditures/expenses.
- Any other funds that management believes are **useful** to present separately